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Dear David

Reference – 78/10 - Transmission Price Control 4 – Rollover (2012/13) Scope Decision and Consultation

National Grid owns and operates the high voltage electricity transmission system in England and Wales, and as National Electricity Transmission System Operator (NETSO) operates the Scottish high voltage transmission system. National Grid also owns and operates the gas transmission system throughout Great Britain and through its gas distribution business distributes gas in the heart of England to approximately 11 million homes, schools and offices. The issues addressed in this consultation directly affect National Grid.

Consultation document 78/10 raises a number of questions in addition to the decisions which have been made and are detailed in the document. This response addresses the questions which were asked.

Chapter 2

1. Do you think that it is appropriate that the revenue drivers should be used in the rollover year to determine allowed capex for the electricity TO's?

National Grid are of the opinion that the forecast business plan questionnaires (FBPQs) submitted by the TOs in October 2010 will be a more reflective indicator of current costs (compared to the TPCR4 unit cost allowances used in the revenue drivers) in determining an allowance for 2012/13.

Given the scale of connection activity in the generation market, capex allowances should be assessed based on the most up-to-date information available. We agree with the approach outlined in paragraph 2.11 of the consultation document; a base load-related capex allowance should be set based on consideration of the TO's FBPQs.

This would allow the impact of an extension of the existing revenue driver unit cost allowances to deal with any uncertainty in the rollover year to be assessed, and changes made if required.

It is also worth noting that the current electricity revenue driver adjustment is hard coded in NGET's licence with all constants based on making the adjustment in 2012/13. Whilst these constants could be recalculated, there do not appear to be any advantages associated with this approach. Our assumption is that this adjustment will occur in 2012/13.

2. Do you believe the SF6 incentive should continue into the rollover year and, if so, is the current structure appropriate or should it be modified?

National Grid believes that there is value in continuing the SF6 incentive into the rollover year, and that the most proportionate approach would be to retain the current incentive structure. We anticipate that the scope for making cost-effective reductions year-on-year is reducing, so we will be suggesting a change to the current rate of decline.

3. NGG have incentives to deliver capacity in a timely manner and we hope to continue this type of incentive for the rollover year. How do you feel this can be best achieved during the rollover year?

National Grid supports continuation of these types of incentive for the rollover year. There is, however, a material misalignment of timescales between those obligated within NGG's licence and those required by the Planning Act (2008). As any new signals for incremental capacity received during the rollover year will enter the incentive schemes in force at that time, National Grid would welcome the opportunity to discuss options for managing this potential misalignment.

In light of indications of potentially very large incremental Exit capacity developments on the NTS, National Grid would also welcome the opportunity to discuss the Project Permit scheme as set out under Special Condition C8E in NGG's licence, which was originally only designed for small-scale projects.

It is also worth noting that some of the potential developments likely to trigger large-scale incremental capacity may require deeper reinforcement of the NTS than has been allowed for in some of the Unit Cost Allowances previously included in NGG's licence. Should these potential developments come to fruition, National Grid would welcome discussion with Ofgem on the appropriateness of some of these figures, along with the indexation factors designed to reflect the real price effects of commodity costs such as steel linepipe and construction labour which are only set to 2011/12.

4. Do you believe that the current structure of the SO internal incentive scheme should roll over?

National Grid agrees that the current structure of the SO internal incentive schemes should rollover into 2012/13. The parameters for both the Electricity and Gas SO internal incentive schemes need resetting for the rollover year however the ESO scheme should keep intact the link with the external BSIS parameters.

Chapter 4

1. We are in the process of finalising our approach to stakeholder engagement for the roll over period, do you agree with the proposed approach detailed in this section?

National Grid supports the proportionate approach to stakeholder engagement throughout the roll over process as proposed by Ofgem.

National Grid looks forward to working proactively with Ofgem to conclude the scope of the 'adapted roll-over' and welcomes further discussion on any of the points raised in this response if required.

Yours sincerely

By e-mail

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